Boston Edison Company

Direct Testimony of Henry C. LaMontagne

Exhibit BEC-HCL

D.T.E. 00-82

Q. Please state your name and business address.

A. My name is Henry C. LaMontagne. My business address is 800 Boylston Street, Boston, Massachusetts 02199.

Q. By whom are you employed and in what capacity?

A. I am Director of Regulatory Policy and Rates for the regulated operating companies of NSTAR. In this capacity, I am responsible for pricing and rate design activities for Boston Edison Company ("Boston Edison" or "Company"), Cambridge Electric Light Company ("Cambridge"), Commonwealth Electric Company ("Commonwealth") and Commonwealth Gas Company.

Q. Please describe your education and professional background.

A. I graduated from the University of Massachusetts - Dartmouth in 1968 with a Bachelor of Science degree in Electrical Engineering. Upon graduation, I served two years of military duty, after which I joined the Engineering Department of COM/Energy Services Company ("COM/Energy") in October 1970. In March 1973, I became a Rate Analyst with the Rate Department of COM/Energy where my primary responsibilities were to assist in the formulation and administration of gas and electric tariffs and special contracts for the operating subsidiaries of the Commonwealth Energy System. Since then, I have held various positions in the Rate Department progressing to Manager – Rate Design in March 1987. I have held that position in the Commonwealth Energy System until its merger with BEC Energy was consummated in August 1999, whereupon I was named to my present position.

Q. Please describe your present responsibilities.

A. As Director of Regulatory Policy and Rates, I am responsible for directing the preparation and design of rate schedules and the pricing of special contracts for Boston Edison. In addition, I am responsible for directing the preparation of embedded and marginal cost allocation studies and other special cost studies as required to support the pricing and rate design function.

Q. Have you previously testified in any formal hearings before regulatory bodies?

A. Yes, I have presented testimony before the Department of Telecommunications and Energy (the "Department") and the Federal Energy Regulatory Commission ("FERC") on numerous occasions. I have most recently presented testimony before the Department on behalf of Boston Edison in D.T.E. 99-107, its 1998 Transition Charge Reconciliation proceeding. I have also presented testimony on behalf of Cambridge and Commonwealth in their 1998 Transition Charge Reconciliation proceeding, D.T.E. 99-90. Previously, I have presented testimony for Cambridge, Commonwealth and Canal Electric Company in their comprehensive electric restructuring plan (the "Restructuring Plan") proceeding, D.P.U./D.T.E. 97-111 (1998) and their divestiture proceeding, D.T.E. 98-78/83 (1998). Also previously, I have presented testimony on behalf of Cambridge, Commonwealth and

Commonwealth Gas Company in general rate proceedings before the Department in Cambridge Electric Light Company, D.P.U. 94/101/95-36 (1995), Commonwealth Gas Company, D.P.U. 95-102 (1995), and Commonwealth Electric Company, D.P.U. 90-331 (1990). In addition, I have presented testimony before the FERC concerning transmission service to the Town of Belmont, in FERC Docket Nos. ER94-1409 and EL94-88.

Q. What is the purpose of your testimony?

A. My testimony will describe the proposed changes to Boston Edison's rates resulting from reconciling Boston Edison's Transition Charge for the year 1999 as well as other rate changes required to implement Boston Edison's Restructuring Settlement Agreement (the "Restructuring Settlement") and the Electric Restructuring Act (the "Act"). As described in the testimony of Bryant K. Robinson, the Company's generating facility divestitures, securitizations, and contract renegotiations have significantly reduced its Transition Charge and the ultimate prices that its customers will pay. My testimony will describe how the reconciled Transition Charge will be implemented and what its impact will be on customers' bills.

Q. When will the proposed rate changes take effect?

A. The new charges are proposed to become effective on January 1, 2001.

Q. What exhibits are you sponsoring in your testimony?

A. I am sponsoring Exhibits BEC-HCL-1 through BEC-HCL-7 and this testimony,

Exhibit BEC-HCL. Exhibit BEC-HCL-1 is the redlined version of the proposed tariffs. Exhibit BEC-HCL-2 sets forth summary tables of revenue by rate schedule that result from implementing the proposed rate changes. Exhibit BEC-HCL-3 sets forth the pricing models and revenue proofs used to design the proposed rates. Exhibit BEC-HCL-4 demonstrates the percentage rate reduction from inflation-adjusted rates at the individual bill level. Exhibit BEC-HCL-5 sets forth a summary of unbundled rate components in effect for each year since the Retail Access Date and projected for the future. Exhibit BEC-HCL-6 sets forth the derivation of the inflation factor. Finally, Exhibit BEC-HCL-7 sets forth typical bill calculations that compare inflation-adjusted rates to proposed rates.

Q. What rate changes is Boston Edison proposing?

A. In addition to proposed changes in the Transition Charge, the Company is also proposing to adjust transmission rates, rates for Energy Efficiency and Renewables and its Standard Offer rate surcharge. The Company is also proposing a rate for its Default Service Adjustment tariff, M.D.T.E. No. 843. Also, certain rate adjustments are made to distribution rate components in order to preserve the required 15 percent reduction from inflation-adjusted rates on a rate-class basis and to provide at least a 14 percent reduction to all customers as directed by the Department. The changes to the transmission rates reflect the Company’s latest calculation of annual prices under its FERC Transmission Tariff as set forth in the testimony of Bryant K. Robinson.

The changes in the Energy Efficiency Charge and the Renewables Charge are as mandated by the Act. The change to the total rate for Standard Offer Service is required to adjust the Standard Offer surcharge to continue the recovery of deferred cost balances incurred by the Company in providing Standard Offer Service to customers. The implementation of the Default Service Adjustment charge is required in order to reconcile the difference between the cost of Default Service supply and the revenues collected for Default Service through the year 2000 by recovering the large deferred cost balance incurred by the Company in providing default service to customers.

Q. Have you provided proposed tariffs that reflect the rate changes described above?

A. Yes, Exhibit BEC-HCL-1 is the redlined version of the Company's proposed rate schedules.

Q. Have you provided a summary of the revenues produced by the proposed rates?

A. Yes. Page 1 of Exhibit BEC-HCL-2 sets forth a summary of the proposed revenues for each rate class and compares such revenues with the corresponding inflation-adjusted revenues for each rate class. This page also documents the components of its rate schedules that the Company is proposing to change with this filing. Page 2 of this exhibit sets forth a detailed report of revenue by unbundled rate component for each rate schedule. Page 3 sets forth the same information as page 2, except that the information is stated in cents/kilowatt-hour ("kWh").

Q. What changes to the Transition Charges is the Company proposing as a result of reconciliation for 1999?

A. In his testimony, Mr. Robinson supports a Transition Charge for the year 2001 of 1.397 cents per kWh. This charge compares to the current Transition Charge for 2000 of 1.891 cents per kWh. For reference, the initial Transition Charge included in the Restructuring Settlement was 3.510 cents per kWh, and the amount originally scheduled in the Restructuring Settlement for 2001 was 2.680 cents per kWh.

Q. How have you reflected the change to the Transition Charge in Boston Edison's rates?

A. The Company assigns the same average Transition Charge rate to each rate class, with the exception of the WR class, which I will address separately. The actual transition charges appearing in the Company's rate schedules may be stated in $/kWh or $/kW depending on the particular rate schedule. Also, the transition charges listed for certain energy and Time-of-Use ("TOU") usage blocks may also differ from the average rate. However, the average Transition Charge calculated over all the transition charge components of an individual rate schedule equals the Company's average Transition Charge rate. This is illustrated by the information provided on Page 3 of Exhibit BEC-HCL-2.

Q. Please explain how the Transition Charge has been set for the WR class.

A. As in previous years, the WR rate class has been charged a single "Delivery Services" charge without a separately stated Transition Charge, Transmission Charge or

Distribution Charge. The Delivery Services charge has been set at a level designed to ensure that the MWRA, the sole member of the WR rate class, receives a minimum 15 percent, rate reduction against inflation-adjusted, pre-restructuring rates for so long as the MWRA receives Standard Offer Service. The reason for this treatment is derived from G.L. c. 164, §1B(b) as added by the Act and was discussed at some length in the Department's order in D.P.U./D.T.E. 96-23, as well as in the Company's prior reconciliation proceedings. It should be noted that the relationship between the Company and the MWRA (and the terms of service for Rate WR) are controlled, in large part, by the Department-approved contract between the parties. Should the MWRA at any point wish to leave Standard Offer Service and the statutorily protected rate reduction, the Company would expect to revisit the issue of WR rate design including the implementation of unbundled rates.

Q. What rate changes are proposed for Transmission rates?

A. The proposed average transmission rate for Boston Edison reflects an increase of $0.00162 per kWh resulting in a total average rate of $0.00538 per kWh. The current average transmission rate is $0.00376 per kilowatt-hour. The current average transmission charges for individual rate schedules are adjusted to reflect the ratio of the proposed transmission rate to the current transmission rate (i.e., $0.00538 / $0.00376 = 1.431). Mr. Robinson describes the development of the revised average Transmission rate in his testimony.

Q. What change is the Company proposing for Energy Efficiency and Renewable Energy Charges?

A. The mandated changes to the Energy Efficiency and Renewable Energy Charges to \$0.00270/kWh and \$0.00100/kWh, respectively, which will become effective on January 1, 2001, are as mandated in the Act.

Q. Why is the Company proposing to implement its Default Service Adjustment in this filing?

A. As discussed in the testimony Rose Ann Pelletier, the Company has incurred significant levels of costs for providing Default Service that it has not recovered through Default Service rates from customers. The Company currently has an approved rate schedule (Tariff M.D.T.E No. 843) that provides for a Default Service Adjustment Factor to reconcile the difference between the costs incurred and the revenues received in providing Default Service. Because of lower transition charges and additional inflation, Boston Edison is able to implement the full Default Service Adjustment Factor for 2001 while maintaining the mandated 15 percent reduction rate cap for customers taking Standard Offer Service. As a result, the Company is proposing to recover, over the next year, its estimated Default Service deferred cost balance. A new tariff (Tariff M.D.T.E. No. 945) has been filed to implement the Default Service Adjustment Factor for 2001.

Q. How have you calculated the proposed Default Service Adjustment Factor?

A. As shown in Exhibit BEC-RAP-3, accompanying the testimony of Rose Ann

Pelletier, the balance in the Default Service deferred account at the end of the year 2000 is estimated to be $53,222,000. The forecasted sales for delivery service in 2001 are 14,681,615 megawatt-hours ("MWh"). Accordingly, the Default Service Adjustment is calculated to be $0.00363/kWh (that is, $53,222,000 / 14,681,615 MWh/ 1,000 = $0.00363/kWh).

Q. How have you calculated the proposed rate for Standard Offer Service?

A. The rate for Standard Offer Service for 2001 is established by the Restructuring Settlement at 3.8 cents/kWh. In addition, the Company may collect a Standard Offer Surcharge in accordance with the Restructuring Settlement and a subsequent settlement agreement entered into by the Company and the Division of Energy Resources on November 30, 1999 (as subsequently amended). The Standard Offer Surcharge is designed to recover the difference between the revenues collected for Standard Offer Service and the costs incurred in providing that service. As described in Ms. Pelletier's testimony, the balance in the Standard Offer deferred account is estimated to be $108,631,000 at the end of 2000. The proposed surcharge of $0.01102/kWh is the maximum surcharge that can be applied while maintaining compliance with the 15 percent reduction from inflation-adjusted rates for each rate class. This surcharge results in an overall reduction of 15.8 percent which is greater than the required reduction for the Company as a whole. The Company reduced the theoretical maximum surcharge level to comply with the 15 percent reduction for each rate class, while minimizing reductions to distribution rates that are otherwise necessary in order to comply with the required reduction for each customer. Exhibit BEC-HCL-5 sets forth the proposed unbundled charges for 2001 along with the history of unbundled charges under restructuring and the projection of charges in future years reflecting current estimates of transition charges and the scheduled changes in Standard Offer charges.

Q. Why are you proposing changes for distribution rates?

A. In accordance with the Act and the Restructuring Settlement, beginning September 1, 1999, the Company was required to implement and maintain a 15 percent reduction from its undiscounted, October 1996 rates for retail customers taking Standard Offer Service. On August 19, 1999, the Department informed the Company by letter how rates should be designed to ensure that the legislative mandate was followed. The Department issued further directives regarding rate design and the determination of inflation factors on December 17, 1999 and also during discussions with the Company related to its compliance filing for January 1, 2000 rates. In essence, the rate-design directives require that: (1) all distribution rates remain at levels no greater than the levels that existed on March 1, 1998; (2) the transition charges collected from each rate class reflect a uniform rate per kWh; and (3) individual rate components (that is, $/bill, $/kW and $/kWh) should reflect no less than a 14 percent reduction from inflation-adjusted rates. As a result of complying with these rate-design constraints, the Company was forced to reduce certain distribution charges for some of its rate schedules. Consequently, the Company's rates are not able to recover the level of distribution revenue allowed in its Restructuring Settlement. The level of distribution revenues not recovered is set forth on Page 4 of Exhibit BEC-HCL-2.

Q. Have you calculated the level of distribution revenues not recovered by the proposed rates?

A. Yes. The level of distribution revenues not recovered is set forth on Page 4 of Exhibit BEC-HCL-2. The Company believes that the non-recovery of such distribution revenue conflicts with the rate-design goals that were inherent in the unbundling of rates approved by the Department as part of the Company's Restructuring Settlement in D.P.U./D.T.E. 96-23. The Restructuring Settlement explicitly allowed restructured rates to be revenue neutral with regard to the collection of distribution revenues. Accordingly, the Company will seek to recover lost distribution revenue through its transition costs recovery mechanism.

Q. Has the Company provided an exhibit setting forth the design rates that implement the proposed changes described above?

A. Yes. Exhibit BEC-HCL-3 sets forth the Company's rate-design models and revenue proofs for each of its proposed rates.

Q. Has the Company demonstrated its compliance with the inflation-adjusted 15 percent rate reduction?

A. Yes. Exhibit BEC-HCL-2, page 1 demonstrates at the rate schedule level that the 15 percent reduction is achieved for each of the Company's rate classes. In addition, Exhibit BEC-HCL-4 demonstrates that each rate component provides at least a nominal 14 percent reduction over the inflation-adjusted, pre-RAD rate levels with the exception of Rate G-2 which I will address separately. Since each rate component reflects at least the minimum required rate reduction, every calculated bill will also reflect, at a minimum, the required rate reduction.

Q. How will you assure that at least a 14 percent reduction will be realized by all Rate G-2 customers?

A. The reduction to the tail block energy price component for winter usage under Rate G-2 reflects a 10.4 percent reduction from inflation-adjusted rates. If this price were adjusted to the 14 percent reduction level, the Company would incur a distribution shortfall of $1.3 million. The Company believes that, when combined with other rate components that provide for reductions significantly greater than 14 percent, no G-2 customer will experience a reduction of less than 14 percent overall. Thus, the proposed rate design is in conformance with the applicable reduction criteria.

Q. What inflation data have the Companies used to compute the inflation adjustment?

A. The inflation-adjustment calculation is set forth in Exhibit BEC-HCL-6. The inflation adjustment is computed using the Consumer Price Index for all Urban Consumers ("CPI-U"). Consistent with the Department's directives, the inflation factor is calculated through June 30, 2001. Data through September 30, 2000 reflect actual inflation data derived from the CPI-U published by the United States Bureau of Labor Statistics. Inflation data for the period October 2000 through June 2001 are projected based on the average inflation rate measured over the most recent 12 months of actual data.

Q. Have you provided typical bill calculations that compare proposed rates with inflation adjusted pre-RAD rates?

A. Yes. Exhibit BEC-HCL-7 sets forth the Company's typical bill comparisons.

Q. Does this conclude your testimony?

A. Yes, it does.